

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 ISO-00 SOE-02 AID-05 CEA-01

CIAE-00 COME-00 DODE-00 DOE-15 H-01 INR-10 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07

SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /133 W

-----085646 221657Z /43

R 221452Z MAR 78

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 6700

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: EMIN, BR, ENRG

SUBJECT: POSSIBLE BP OIL DISCOVERY IN SANTOS BASIN

1. SUMMARY: ON MARCH 7, MINES AND ENERGY UEKI ANNOUNCED THAT BRITISH PETROLEUM (BP) HAD DISCOVERED PETROLEUM IN THE SANTOS BASIN, SOME 240 KMS OFF THE SAO PAULO COASTLINE. THAT SAME DAY, AN OFFICIAL PETROBRAS PRESS RELEASE STATED THAT "INDICATIONS OF HYDRO-CARBONS" HAD BEEN FOUND AT BP'S 1-SPS-9 WELL--THE COMPANX'S FIRST WILDCAT IN BRAZIL, AND THE FIRST WELL ACTUALLY DRILLED UNDER THE NEW BRAZILIAN RISK CONTRACT FORMAT. THE OIL "INDICATIONS", IN THE FORM OF 7 METERS OF SATURATED SANDSTONE, WERE FOUND AT A DEPTH OF 4,850 METERS, JUST SHOGT OF THE WELL'S PLANNED DEPTH OF 5000 METERS. PETROBRAS GEOLOGISTS HAVE REVEALED THAT FURTHER TESTS -- PHOTOGRAPHIC PROFILES, ANALYSIS OF ROCK SAMPLES, FORMATION AND PRODUCTION TESTS -- WILL REQUIRE AN ADDITIONAL TWO WEEKS TO COMPLETE, MAKING IT UNLIKELY THAT THE

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WELL'S COMMERCIAL POTENTIAL WILL BE KNOWN BEFORE APRIL. DISCOVERY COMES A MONTH AFTER EARLIER RUMORS (SEE REFAIR) THAT BP HAD IC FACT DISCOVERED PETROLEUM AT 1-SPS-9 IN DECEMBER/JANUARY THESE RUMORS WERE VEHEMENTLY DENIED AT THE TIME BY PETROBRAS AND BP. END SUMMARY.

2. TIMING OF UEKI/PETROBRAS' ANNOUNCEMENTS OF THE DISCOVERY -- BOTH OF WHICH WERE MADE ON TUESDAY, MARCH 7TH -- HAVE CAUSED SOMETHING OF AN UPROAR, SINCE RECORD NUMBERS OF PETROBRAS SHARES WERE TRADED ON SAO PAULO AND RIO STOCK EXCHANGES ON MONDAY (3/6 AND TUESDAY (3/7), JUST PRIOR TO RELEASE OF NEWS OF BP DISCOVERY. (PETROBRAS STOCK WAS ALSO EXTREMELY ACTIVELY TRADED THE PRECEDING WEEK). AS A RESULT OF THE FRENZIED TRADING, THE BRAZILIAN SECURITIES COMMISSION (COMISSAO DE VALORES MOBILIARIOS) REQUESTED AND PROMPTLY RECEIVED FROM PETROBRAS AN OFFICIAL - BUT BLAND -- CLARIFICATION OF DETAILS CONCERNING THE DISCOVERY. THE COMMISSION THEN INITIATED AN INVESTIGATION IN ORDER TO DETERMINE WHETHER OR NOT ANY "INSIDERS" PROFITED FROM PRIOR KNOWLEDGE OF BP'S OIL FIND. (FYI. MINISTER UEKI HAS PUBLICLY GIVEN FULL SUPPORT TO THE INVESTIGATION.)

3. BEGIN BACKGROUND: FOR SOME YEARS GEOLOGISTS HAVE SUSPECTED THAT THE SANTOS BASIN MIGHT CONTAIN APPRECIABLE QUANTITIES OF PETROLEUM: ITS GEOLOGICAL STRUCTURE IS SIMILAR TO THE ADJACENT, RELATIVELY OIL-RICH CAMPOS BASIN (THE TWO ARE SEPARATED BY A STRUCTURAL "HIGH"); IT IS SOME THREE TIMES LARGER IN AREA THAN CAMPOS; AND IT IS DOTTED WITH PROMISING SALT DOME FORMATIONS. IN 1973, A FRENCH SEISMIC LIMITED OFFICIAL USE

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RESEARCH VESSEL CARRIED OUT AN EXTENSIVE SURVEY OF THE SOUTHERN BRAZILIAN CONTINENTAL SHELF, INCLUDING SANTOS BASIN, WITH RESULTS WHICH WERE BELIEVED AT THE TIME TO BE QUITE PROMISING. HOWEVER, IN 1974 AN 8-WELL PETROBRAS DRILLING PROGRAM IN THE SANTOS BASIN - 7 WELLS WERE ACTUALLY SUNK - WAS UNSUCCESSFUL, WITH NO TRACES OF PETROLEUM LOCATED.

4. COMMENT: BEGIN LIMITED OFFICIAL USE. WHETHER OR NOT THE PRESENCE OF OIL IN COMMERCIAL QUANTITIES IS ACTUALLY CONFIRMED AT BP'S 1-SPS-9 WELL, THE COMPANY'S DISCOVERY OF "INDICATIONS" OF HYDROCARBONS IN THE SANTOS BASIN MAY BE EXTREMELY SIGNIFICANT, WITH A NUMBER OF POTENTIALLY IMPORTANT RAMIFICATIONS FOR BRAZIL'S OVERALL PETROLEUM EXPLORATION AND, POSSIBLY, DEVELOPMENT STRATEGY.

5. FIRST, ALTHOUGH UEKI HAS - CHARACTERISTICALLY" ADOPTED A VERY UPBEAT ATTITUDE CONCERNING THE BP FIND, THE BRITISH COMPANY'S DISCOVERY OF AT LEAST TRACES OF OIL IN ITS VERY FIRST WILDCAT - COMING AFTER LENGTHY, EXPENSIVE, AND ULTIMATELY UNSUCCESSFUL PETROBRAS

EFFORTS IN THE SAME AREA IN 1974 - CANNOT FAIL TO
HAVE A NEGATIVE IMPACT ON PETROBRAS' PRESUMED COM-
PETENCE - OR LACK THEREOF - IN FINDING OIL. IN
FACT, BOTH LEADING SAO PAULO INDUSTRIALISTS (WHEN
BP'S DISCOVERY WAS FIRST RUMORED, IN JANUARY) AND
INFLUENTIAL RIO AND SAO PAULO PAPERS HAVE BEGUN TO
SEVERELY CRITICIZE PETROBRAS FOR WHAT IS
DEEMED TO BE "INCOMPETENCE" IN ITS EXPLORATION
ACTIVITIES.

6. A SECOND MAJOR IMPLICATION OF THE BP FIND IS THAT
THE FOCUS OF PETROBRAS' SECOND RISK CONTRACT ROUND
MAY SHIFT INCREASINGLY - IF NOT EXCLUSIVELY - TO
THE SANTOS BASIN. ALTHOUGH FOUR OIL COMPANIES
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HAVE SIGNED RISK CONTRACTS (IN BOTH 1ST AND 2ND
RISK CONTRACT ROUNDS) FOR OIL EXPLORATION OFF THE
MOUTH OF THE AMAZON RIVER, AT LEAST SEVEN COMPANIES

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R 221452Z MAR 78
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ARE NOW INVOLVED IN NEGOTIATIONS WITH PETROBRAS, WITH
ALL REPORTEDLY INTERESTED IN BLOCKS IN THE SANTOS

BASIN (A FURTHER SIX COMPANIES HAVE NOT YET BEGUN NEGOTIATIONS WITH PETROBRAS, BUT WHEN THEY DO, IT IS HIGHLY LIKELY THAT SANTOS WILL BE THE CENTRAL FOCUS OF THEIR INTERESTS)

7. FURTHER, BASED ON THE BP DISCOVERY, PETROBRAS MAY BE ABLE TO DRIVE A SUBSTANTIALLY HARDER BARGAIN IN THIS ROUND, SINCE THE DEGREE OF "RISK" IN SANTOS -- NOW THAT THE ACTUAL PRESENCE OF OIL HAS BEEN ESTABLISHED - IS SIGNIFICANTLY LOWER. (NB. BP, THE FIRST COMPANY TO SIGN A RISK CONTRACT WITH PETROBRAS, IS RUMORED TO HAVE ACCEDED TO VERY STIFF CONTRACT TERMS DURING THE FIRST ROUND OF NEGOTIATIONS. INDUSTRY OBSERVERS BELIEVE THAT THE COMPANY DID SO BECAUSE OF THE POSSIBILITY OF SIGNIFICANT BRITISH EQUIPMENT AND SERVICES SALES TO PETROBRAS, NOT BECAUSE BP HAD ANY "INSIDE" INFORMATION CONCERNING THE LIKELIHOOD THAT OIL WOULD BE FOUND IN SANTOS - LIMITED OFFICIAL USE

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ALTHOUGH THE COMPANY'S RECORD IN FINDING OIL IS REPORTEDLY CONSIDERED TO BE AMONG THE BEST OF THE "MAJORS").

8. FROM A LONGER-TERM PERSPECTIVE, THERE IS A FOURTH POSSIBLE IMPLICATION OF THE BP OIL FIND AT 1-SPS-9. PERHAPS NOT UNCONNECTED WITH THE BP DISCOVERY, THERE HAS BEEN AN INCREASING NUMBER OF RUMORS CIRCULATING RECENTLY THROUGHOUT THE INDUSTRY THAT BP WOULD BEGIN TO OFFER AT LEAST "TECHNICAL ASSISTANCE" TO PETROBRAS IN THE CAMPOS BASIN. (FYI. SUCH "ASSISTANCE" WOULD ALSO INCLUDE BRITISH EQUIPMENT SALES, AND WOULD dovetail WITH THE BELIEF NOTED ABOVE, THAT BP HAD LONGER-RANGE MOTIVES IN MIND WHEN IT SIGNED WHAT IS THOUGHT TO HAVE BEEN A VERY STRINGENT FIRST ROUND RISK CONTRACT). IF SO, THIS WOULD MARK A SECOND NEW DEPARTURE FOR PETROBRAS: I.E., FIRST, RISK CONTRACTS ALLOWING FOREIGN FIRMS TO EXPLORE FOR OIL IN BRAZIL; SECOND, ACTUAL FOREIGN ASSISTANCE IN THE DEVELOPMENT OF OIL PRODUCTION - AND IN THE CAMPOS BASIN, THE SITE OF PETROBRAS MOST IMPORTANT OFFSHORE OIL DISCOVERIES, AND THE AREA ON WHICH MOST OF BRAZIL'S MEDIUM-TERM HOPES FOR SIGNIFICANTLY GREATER NATIONAL OIL PRODUCTION ARE PINNED.

9. IF BP (OR ANOTHER FOREIGN COMPANY, OR COMPANIES) DOES BEGIN TO WORK - IN "COOPERATION" WITH PETROBRAS - IN THE CAMPOS BASIN, A SIGNIFICANT NEW TREND MAY BE EMERGING: I.E., THE GOB MAY HAVE DECIDED THAT IN SPITE OF WHAT WILL NO DOUBT BE A SIZEABLE AMOUNT OF

RESISTANCE FROM WITHIN PETROBRAS, INCREASING FOREIGN ASSISTANCE IS VITAL IF BRAZIL'S OFFSHORE OIL RESERVES ARE TO BE LOCATED AND EXPLOITED EXPEDITIOUSLY. LIMITED OFFICIAL USE

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ALTHOUGH UNEXPECTED, SUCH A GOB DECISION WOULD NOT BE OUTSIDE THE REALM OF POSSIBILITY, GIVEN PETROBRAS' HISTORICALLY MEDIOCRE TRACK RECORD IN FINDING AND, SO AN INCREASING NUMBER OF INDUSTRY OBSERVERS AGREE, IN DEVELOPING OFFSHORE OIL FIELDS. IN THIS CONTEXT, BP'S STARTLING "ONE-FOR-ONE" RECORD ON OIL WILDCATS - EVEN IF 1-SPS-9 IS NOT COMMERCIAL - MAKES FOR A STARK CONTRAST WITH PETROBRAS' ROUGHLY ONE-FOR-15 WILDCAT AVERAGE, THE \$1 BILLION IT SPENT UNSUCCESSFULLY ON OIL EXPLORATION IN THE AMAZON REGION, AND THE COMPANY'S POOR PREVIOUS RECORD IN THE SANTOS BASIN. FURTHER, PETROBRAS IS ALSO HAVING DIFFICULTY IN BRINGING ITS OFFSHORE FIELDS IN NORTHEASTERN BRAZIL (SERGIPE, ALAGOAS) INTO FULL PRODUCTION, OUTPUT RATES FROM ONSHORE (BAHIAN) WELLS ARE DECLINING, AND THE COUNTRY'S OVERALL CONSUMPTION OF PETROLEUM DERIVATIVES - ALTHOUGH CONSTRAINED BY A VARIETY OF GOVERNMENT MEASURES - IS RISING AT A STEADY IF MODERATE RATE. ON BALANCE, THEN, A POWERFUL ARRAY OF ARGUMENTS EXIST WHICH THE GOB COULD USE TO JUSTIFY AT LEAST A PARTIAL DIMINUTION OF PETROBRAS' PREDOMINANT POSITION, IN ORDER TO INCREASE NATIONAL OIL PRODUCTION AT THE FASTEST POSSIBLE RATE.

10. THUS, IT IS CONCEIVABLE THAT WITHIN THE NEXT 5-10 YEARS FOREIGN OIL COMPANIES COULD BE EXPLORING FOR OIL OFF A LARGE PORTION OF BRAZILIAN COASTLINE - AT LEAST THAT PART WHICH IS GEOLOGICALLY PROMISING - WITH ONE OR MORE ACTUALLY INVOLVED IN DEVELOPING PRODUCTION FROM THE CAMPOS BASIN. (P WOULD BE A PRIME CANDIDATE.) (FYI: PETROBRAS' OFFSHORE NORTHEASTERN FIELDS ARE PROBABLY NOT BIG ENOUGH TO JUSTIFY MAJOR FOREIGN PARTICIPATION IN THEIR DEVELOPMENT.) HOWEVER, FOR SUCH A SCENARIO TO DEVELOP, BRAZIL WOULD HAVE TO ADOPT A LESS NATIONALISTIC POSTURE REGARDING ITS OIL RESOURCES, SOMETHING WHICH MAY HAPPEN ONLY IF THE COUNTRY'S PRESENT OIL-POOR LIMITED OFFICIAL USE

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POSITION WORSENS APPRECIABLY OVER TIME - OR, IF GOVERNMENTAL PERCEPTIONS CONCERNING THE ACTUAL SEVERITY OF THE COUNTRY'S OIL CRUNCH CONTINUE TO

EVOLVE AS THEY HAVE OVER THE LAST 3-4 YEARS.

1. WHETHER OR NOT MAJOR STRUCTURAL CHANGES IN THE WAY OFFSHORE OIL EXPLORATION AND DEVELOPMENT ARE CARRIED OUT IN BRAZIL ACTUALLY RESULT FROM THE BP SANTOS BASIN OIL SHOW, THE DISCOVERY CANNOT FAIL TO HAVE A SIGNIFICANT IMPACT ON BRAZILIAN GOVERNMENT PLANNERS, AS WELL AS ON INFORMED SECTORS OF THE BRAZILIAN PUBLIC. AFTER JUST ONE WILDCATH DRILLING, BP HAS ALREADY PROVIDED A STRIKING CONTRAST TO PETROBRAS' MEDIOCRE EXPLORATORY.

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L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /133 W
-----085689 221656Z /43

R 221452Z MAR 78
FM AMEMBASSY BRASILIA
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EFFORTS OVER THE LAST TWO DECADES. FURTHER, IF FORTHCOMING DRILLING EFFORTS BY OTHER RISK CONTRACTEES - AS WELL AS ADDITIONAL BP WELLS IN THE SANTOS BASIN - ARE EVEN MODERATELY SUCCESSFUL, PRESSURES FOR GREATER FOREIGN PARTICIPATION IN THE DEVELOPMENT OF BRAZIL'S OFFSHORE OIL RESOURCES WILL INVARIABLY INCREASE. WHETHER OR NOT THESE PRESSURES WILL ULTIMATELY PROVE IRRESISTIBLE PROBABLY DEPEND LARGELY ON FOUR FACTORS: (1) PETROBRAS' TRACK RECORD IN DEVELOPING THE CAMPOS BASIN; (2) RISK CONTRACTEES' OVERALL SUCCESS RATE; (3) THE RATE OF INCREASE OF BRAZIL'S OIL IMPORT BILL AND (4) THE LONG-TERM EVOLUTION OF NATIONALISTIC SENTIMENTS IN BRAZIL REGARDING DEVELOPING OF "STRATEGIC" RESOURCES SUCH AS PETROLEUM. END

COMMENT, END LIMITED OFFICIAL USE.

12. MESSAGE PREPARED BY AMCONSUL RIO DE JANEIRO.
JOHNSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: OFFSHORE DRILLING, PETROLEUM INDUSTRY, EXPLORATION, OIL FIELDS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRASIL02276
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780126-0611
Format: TEL
From: BRASILIA
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1978/newtext/t19780339/aaaabgwu.tel
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Litigation Code IDs:
Litigation Codes:
Litigation History:
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Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3244535
Secure: OPEN
Status: NATIVE
Subject: POSSIBLE BP OIL DISCOVERY IN SANTOS BASIN
TAGS: EMIN, ENRG, BR, BP, BRITISH PETROLEUM
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/af71c1bf-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014